



MINISTRY OF TRANSPORT

Shipbuilding Orders Placed Abroad by British Shipowners

*Report to Minister of Transport
by Messrs Peat, Marwick, Mitchell
& Company*

LONDON
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FOREWORD BY THE MINISTER OF TRANSPORT

During a debate on shipping and shipbuilding in the House of Commons on 13th July, 1961, I drew attention to the extent to which British shipowners had been placing orders abroad for ships. I announced that the Government had appointed Messrs. Peat, Marwick, Mitchell and Company, chartered accountants, to analyse and summarise the reasons for this and to report to the Government.

The firm's report follows. It covers orders placed between the beginning of 1959 and the end of July, 1961.

I have discussed the findings in the report with the Shipbuilding Conference.

(*Sgd.*) ERNEST MARPLES

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10th October, 1961.

The Rt. Hon. ERNEST MARPLES, M.P.,
Minister of Transport,
St. Christopher House,
London, S.E.1.

SIR,

On 13th July last you announced in the House of Commons that you had appointed us to conduct an inquiry into all shipbuilding orders placed abroad during the last two or three years by British shipowners, to analyse and summarise the reasons why these orders were placed abroad rather than with British yards and to report our findings. You also announced that we would work closely with the General Council of British Shipping.

SCOPE OF THE INQUIRY

1. We discussed the scope of our inquiry with you and officials of the Ministry of Transport and with officers of the General Council of British Shipping and it was decided that, at least in the first instance, we should attempt to embrace all orders placed with shipbuilders outside the United Kingdom

- (i) by companies registered in the United Kingdom, Bermuda or the Bahamas,
- (ii) since 1st January, 1959,
- (iii) for ships of 1,000 gross tons or more which have been or are intended to be registered in the United Kingdom.

2. It was considered desirable to invite shipping companies registered in Bermuda and the Bahamas, or their representatives in London, to co-operate in the inquiry as regards any of their ships registered or intended to be registered in the United Kingdom.

3. The opening date of 1st January, 1959, was chosen because the placing of orders prior to that date seemed likely to have been affected by the extended delivery necessarily quoted by British shipyards as a consequence of the "back-log" of orders dating from the Suez crisis and earlier.

4. As a first step, in consultation with officials of the Ministry and of the General Council of British Shipping, we prepared a form of questionnaire designed to obtain from British shipowners information in regard to each ship ordered abroad and, in particular, as to:—

- (i) Tenders invited.
- (ii) Prices quoted.
- (iii) Delivery dates.

(iv) Credit terms.

(v) The shipowner's reasons for ordering the ship abroad.

(vi) Any relevant supplementary information.

The form of questionnaire was sent to all companies to which, so far as we could ascertain, the above stated circumstances might be applicable. At the same time shipowners were given an undertaking by us that their replies would be confidential to us and would not be disclosed other than in collated form together with similar information from other shipowners. The General Council of British Shipping advised all its members of its support for this inquiry and asked them to furnish us with the required information.

5. We have had a most satisfactory response from the shipowners concerned. We have subsequently had interviews with the management of a number of companies with a view to the amplification and more precise definition of the information contained in their replies. The information contained in this report is based entirely and factually upon the replies obtained and covers orders placed up to the end of July, 1961. The need to preserve confidence has entailed a certain amount of aggregation of figures but we do not think that this caused any material difficulty in usefully summarising the information obtained.

6. We have received the utmost assistance and co-operation from all concerned and should like to record our appreciation.

TOTAL ORDERS SURVEYED

7. Forms of questionnaire were sent to 43 companies in respect of 91 ships.

8. We realised that orders in respect of some of these ships might not be within the scope of our inquiry but we circulated the companies concerned in order to confirm the position and also to bring as many relevant orders as possible under our survey. The replies received confirmed that 21 ships had been originally ordered by British owners before 1959 but had been brought to our attention because of some change which took place after 1958; for example in 14 cases the original order had been changed either in respect of the size or the type of ship. We satisfied ourselves that these ships should be excluded from further consideration.

9. The orders in respect of the remaining 70 ships may be summarised as follows:—

	Number of Ships	Gross Tonnage
Orders transferred (see para. 10)	18	447,000
Orders for ships of less than 1,000 gross tons (see para. 11)	3	2,000
Orders in special circumstances (see para. 12) ...	8	200,000
No information supplied by owners (see para. 13) ...	7	40,000
Balance of orders (see para. 14 et seq.) ...	34	199,000
	70	888,000

10. The replies we received enabled us to satisfy ourselves that the orders transferred were all originally placed before 1st January, 1959, but after that date were transferred from one associated company to another in each case. In respect of 16 ships of 347,000 gross tons the transfers were from a foreign company to a British company and in respect of 2 ships of 100,000 tons the transfers were between two British companies. All transfers were as a result of group requirements and in no case were new tenders invited. In these cases, as in the cases of the 14 ships referred to in paragraph 8, the position was that if the orders had been transferred to a British yard, severe penalties or damages might have been payable to the yard with which the original order was placed. In these circumstances we concluded that the orders in respect of these 18 ships could not usefully be further considered in our survey.

11. Questionnaires were not required to be completed in respect of the 3 ships of under 1,000 tons. In some other cases where information was nevertheless supplied, ships of less than 1,000 tons have been included.

12. Eight ships were ordered abroad in special circumstances such that the details of these orders were not suitable for inclusion in our inquiry. Some were ordered in a foreign yard with a view to their being chartered to the same foreign country, some eventually proved not to be for registration in the United Kingdom and some were bought off the stocks.

13. Questionnaires were not returned by four companies. In one case we were informed that the contracts had not been signed and in the other three cases we received no reply. Of the three cases where we received no reply, two had head offices outside the United Kingdom.

ORDERS WITHIN PARAGRAPH 1

14. The balance of the orders was placed by 22 companies in respect of 34 ships of an aggregate gross tonnage of 198,825, as follows:

	1959		1960		1961	
	Number of Ships	Gross Tonnage	Number of Ships	Gross Tonnage	Number of Ships	Gross Tonnage
Cargo Liner Bulk Carrier Tramp Trawler } Tanker }	...	9	68,922	10	46,666	—
	...	1	12,000	2	29,000	—
	...	4	12,046	3	10,890	5
	...	14	92,968	15	86,556	5
						19,301

Included in cargo liners are 9 ships of 54,966 gross tons which are partly refrigerated and 4 ships of 35,701 gross tons which are described as cargo liners/deep sea tramps. All the ships are motor ships.

15. No passenger liners and no tankers of material size are included in the orders considered relevant to the inquiry.

16. The orders were placed in yards in the following countries:

Country					Number of Ships	Gross Tonnage
Holland	...	...	...	...	13	49,897
Germany	...	...	...	...	7	15,148
France	...	...	...	...	6	66,949
Sweden	...	...	...	...	5	44,661
Spain	...	...	...	...	2	10,170
Norway	...	...	...	...	1	12,000
					34	198,825

17. The approximate total cost of the 34 ships is £23,000,000.

MATTERS AFFECTING PLACING OF THE ORDERS

Tenders

18. *No Tenders.* Tenders were not invited from either United Kingdom or foreign yards in respect of 7 ships (54,110 gross tons) out of the total of 34. The reasons for this were that the ships in question were either

- (i) repeat orders where the owner was satisfied with the terms and work of the foreign yard on the previous order or
- (ii) part of a larger order by a group of companies where all the ships were to be built at the same yard on terms which the owners regarded as satisfactory.

19. *United Kingdom Tenders only.* In respect of 3 ships (26,801 gross tons) tenders were invited from United Kingdom yards only. The ships were identical to a previous ship built in a foreign yard whose terms were already known. None of the United Kingdom tenders was competitive in price, the lowest being 10% above the foreign price, and the order was therefore placed with the foreign yard.

20. *Foreign Tenders only.* In respect of 7 ships (22,583 gross tons) tenders were invited from a number of foreign yards but no United Kingdom yards for one or more of the following reasons:—

- (i) United Kingdom yards would quote on a "cost plus" basis instead of a fixed price
- (ii) Yards in a certain foreign country were known to be offering particularly low prices during a period of shipbuilding recession
- (iii) United Kingdom prices would be substantially higher than foreign prices
- (iv) United Kingdom builders were unwilling to install the foreign-built engine specified by the owners.

21. *United Kingdom and Foreign Tenders.* In respect of the remaining 17 ships (95,331 gross tons) the aggregate of tenders invited for all the ships was 121 from United Kingdom yards and 116 from foreign yards; the aggregate of tenders received was 76 from United Kingdom yards and 79 from foreign yards. The two main reasons given by either United Kingdom or foreign yards why they did not submit tenders when invited to do so, were that they were either too busy or unable to meet the required delivery date.

Price

22. In all cases where tenders were submitted by both United Kingdom and foreign yards we were able to compare the actual tender price accepted with the lowest United Kingdom tender price; the latter ranged from between 4% to 30% higher than the former in all except two cases where there was no significant difference. For over half of the cases the range was from 12% to 17% and all the countries mentioned in paragraph 16 figured within this range. There was no case where a United Kingdom yard quoted a lower price than the accepted foreign price. In a number of cases several foreign yards quoted prices lower than the lowest United Kingdom tender price. In one case a foreign yard was stated to have offered better than Lloyd's minimum requirements, which the competing United Kingdom yard did not.

23. With possibly one exception all the accepted tenders were fixed prices.

24. Our inquiries did not produce any direct evidence of the extent to which the prices quoted by foreign yards for these orders were in fact reduced because of the receipt of subsidies or other financial assistance. There was however evidence at least in one case to show that the foreign tender was submitted at a price designed to secure the order without regard to whether it was profitable.

Delivery Date

25. In cases where delivery dates could be compared there was generally little or no difference between the delivery dates quoted by foreign and United Kingdom yards and in two cases United Kingdom yards quoted earlier delivery. In almost all cases, however, penalties for late delivery were accepted as part of the contract in one form or another by the foreign yards and the placing of orders was undoubtedly influenced by the advantage of a delivery date "guaranteed" in this way coupled with a general feeling, as evidenced in the supplementary comments of a number of owners, that foreign yards were less prone to delays as a result of strike action than United Kingdom yards. British yards are stated not to have been willing, until recently, to accept penalty clauses.

26. In a number of cases shift working was mentioned as being practised in foreign yards, particularly towards the end of the contract and in order to meet the agreed delivery date.

27. Out of the 34 ships, 15 were due for delivery during the period under review and of these, 12 were delivered on time; 2 were delayed because the main engines were not supplied on time, in one case by British makers, and one was delayed because of changes during building required by the owners. These 3 delayed ships have now been delivered.

Payment and Credit Facilities

28. The availability of credit facilities to spread payment for a ship over a number of years does not appear in most cases to have been of primary importance, and in fact such facilities were neither required nor asked for by several owners.

29. Advantage is being taken of credit facilities offered by the builders abroad in the case of 9 out of the 34 ships, 6 being built in France, 2 in

Spain, and 1 in Norway. The facilities cover between 60% and 80% of the total price over periods from 5 to 8 years with interest ranging from 3% to 6½% per annum. In most cases the outstanding balance is secured by a first mortgage on the ship only.

30. In all 9 cases where credit facilities are being used, such facilities were secondary or at least of no greater importance than basic price in deciding to place the order abroad.

31. There was only one instance where a United Kingdom yard offered credit terms and these were broadly in line with those referred to in paragraph 29 except that interest was at 1% over bank rate with a minimum of 5½%.

32. Apart from the cases referred to above in which credit facilities are being used, there was one case where the foreign yard offered more favourable progress payments during construction and this was a factor affecting the placing of the order. In the remaining cases, however, the methods of payment were all broadly in line with those demanded by United Kingdom yards, the balance of the purchase price being payable at the delivery date.

33. Although it appears that only three countries i.e. France, Spain and Norway, offered credit facilities we were informed that credit arrangements could have been made with a Swedish yard. We have also been informed from a number of sources that satisfactory credit arrangements can also be made in other countries but we have no direct evidence of this.

Main Engines

34. In connection with orders for 10 ships special mention was made of particular types of foreign engine which were either specified by the shipowner or considered to be superior to those offered by United Kingdom yards and this had some effect on the placing of the orders. Whilst foreign engines are manufactured in the United Kingdom under licence there were two cases where for one reason or another this was not considered a satisfactory solution. On the other hand there was one case where the foreign engine installed was considered to be more expensive to maintain and generally less satisfactory than an engine of United Kingdom design.

Workmanship

35. In the 15 cases where the ships have already been delivered we were informed that workmanship, performance and finish were either excellent or very satisfactory; in the case of 5 further ships still under construction we have been informed that the workmanship so far has been excellent.

36. In one case the order was only placed abroad with some hesitation and a similar order was placed with a United Kingdom yard at the same time. We were informed that when both ships were completed the foreign ship had a better finish than the United Kingdom built ship.

SUMMARY

37. In respect of the 34 ships falling within paragraph 1, the reasons for placing the orders abroad rather than with United Kingdom yards can be broadly summarised as follows:—

	<i>Number of Ships</i>
Price	15
Price and delivery date	10
Price and credit facilities	6
Guaranteed delivery date	2
United Kingdom builders unwilling to install a foreign-built engine	1
	<hr/>
	34
	<hr/>

38. Our terms of reference did not require us to draw conclusions from the facts emerging from our inquiry but we think it pertinent to point out that as our inquiries were confined to British ships ordered abroad, it was inevitable that the prices or delivery dates quoted by foreign yards for these ships would be more favourable than those quoted by British yards. Indeed one passenger shipowner gave particulars where British tenders had been internationally competitive.

39. Our figures should not be taken necessarily as indicating a reducing trend in the number of United Kingdom orders placed abroad, and in fact we have received information relating to other construction of British ships being considered for placing abroad. There is also evidence that there remain further substantial orders placed before 1959 where construction has not yet commenced.

We have the honour to be,

Sir,

Your obedient Servants,

(sgd.) PEAT, MARWICK, MITCHELL & CO.